

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|---------------------------|--|-------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name Clam Lake Township DDA | County Wexford |
| Fiscal Year End 6-30-2006 | Opinion Date 9-26-2006 | Date Audit Report Submitted to State October 17, 2006 | |

We affirm that:

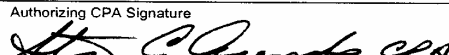
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|--|--|------------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C. | | Telephone Number 231-775-9789 | |
| Street Address 134 West Harris Street | | City Cadillac | State MI |
| | | Zip 49601 | |
| Authorizing CPA Signature  | Printed Name Steven C. Arends, C.P.A. | | License Number 1101013211 |

CLAM LAKE TOWNSHIP
DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

JUNE 30, 2006

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

JUNE 30, 2006

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SCOTT A. HUNTER, C.P.A.
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MICHAEL D. COOL, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

September 26, 2006

INDEPENDENT AUDITORS' REPORT

To the Board
Clam Lake Downtown Development Authority
Clam Lake Township
Cadillac, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Clam Lake Downtown Development Authority (A Component Unit of Clam Lake Township) as of and for the year ended June 30, 2006, which collectively comprise the authorities basic financial statements as listed in the table of contents. These component unit financial statements are the responsibility of the management of the Clam Lake DDA. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Clam Lake Downtown Development Authority as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages ii through v and 11 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BAIRD, COTTER AND BISHOP

Baird, Cotter & Bishop, P.C.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township) CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

The Clam Lake Township Downtown Development Authority located in Wexford County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Clam Lake Township Downtown Development Authority board's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Overview of the Financial Statements

Clam Lake Township Downtown Development Authority's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

A. Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represented those presented by business and industry. The entire Authority's assets and liabilities, both short and long-term, are reported.

The *Statement of Net Assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Activities* presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

B. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Clam Lake Township Downtown Development Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

C. Summary of Net Assets

| | <u>2006</u> | <u>2005</u> |
|-------------------------|-------------------------|-------------------------|
| Assets | | |
| Current Assets | \$252,152 | \$222,138 |
| Liabilities | <u>0</u> | <u>0</u> |
| Net Assets-Unrestricted | <u><u>\$252,152</u></u> | <u><u>\$222,138</u></u> |

D. Analysis of Financial Position

During the fiscal year ended June 30, 2006, the Authority's net assets increased by \$33,014.

E. Results of Operations

For the fiscal year ended June 30, the results of operations were:

| | <u>2006</u> | | <u>2005</u> | |
|-------------------------|-------------------------|-------------------|-------------------------|-------------------|
| | <u>AMOUNT</u> | <u>% OF TOTAL</u> | <u>AMOUNT</u> | <u>% OF TOTAL</u> |
| General Revenues | | | | |
| Property Taxes | \$ 77,700 | 89.76% | \$ 72,641 | 97.32% |
| Investment Earnings | <u>8,860</u> | <u>10.24%</u> | <u>1,999</u> | <u>2.68%</u> |
| Total Revenues | <u>\$ 86,560</u> | <u>100.00%</u> | <u>\$ 74,640</u> | <u>100.00%</u> |
| Expenses | <u>\$ 53,546</u> | <u>100.00%</u> | <u>\$ 29,051</u> | <u>100.00%</u> |
| Change in Net Assets | <u><u>\$ 33,014</u></u> | | <u><u>\$ 45,589</u></u> | |

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

1. Property Taxes

The Authority receives property taxes for operations.

For the year ended June 30, 2006, the Authority recognized \$77,700 of property tax revenue.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

2. Fire Protection

The Authority pays for fire protection to the City of Cadillac its pro-rata share based on the captured taxable value of the district in relation to the total taxable value of the Township. For the year ended June 30, 2006, this amount was \$15,489.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Authority approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Authority prior to the close of the year on June 30.

For the year ended June 30, 2006, the Authority made an amendment to the budget in June 2006. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
|--------------------|--------------------|-----------------|-----------|----------------------------------|
| Total Revenues | \$ 76,000 | \$ 76,000 | \$ 86,560 | \$ 10,560 |
| Total Expenditures | 76,000 | 76,000 | 53,546 | (22,454) |

H. Capital Assets and Long-Term Debt

1. Capital Assets

At June 30, 2006, the Authority had no capital assets.

2. Long-Term Debt

At June 30, 2006, the Authority had no long-term debt.

I. Factors Bearing on the Authority's Future

At the time that these financial statements were prepared and audited, the Authority was aware of the following item that could significantly affect its financial health in the future:

A significant portion of the Authority's funding comes from property taxes. Any impairment to this funding source would greatly impact the future of the Authority.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

J. Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report, please contact the Clam Lake Township DDA Treasurer at 8809 E M-115, Cadillac, Michigan 49601.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS
JUNE 30, 2006

ASSETS

Current Assets

| | |
|-------------------------|-----------------------|
| Cash | |
| Commercial Account | \$ 20,542 |
| Certificates of Deposit | 232,367 |
| Taxes Receivable | <u>2,243</u> |
| TOTAL ASSETS | \$ <u>255,152</u> |

LIABILITIES AND NET ASSETS

| | |
|--------------------------------------|-----------------------|
| <u>Liabilities</u> | \$ 0 |
| <u>Net Assets</u> | |
| Unrestricted | <u>255,152</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ <u>255,152</u> |

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)

CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

| | EXPENSES | PROGRAM REVENUES CHARGES FOR SERVICES | GOVERNMENTAL ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS |
|---------------------------------------|------------------|--|--|
| <u>GOVERNMENTAL ACTIVITIES</u> | | | |
| Public Safety | \$ 15,489 | \$ 0 | \$ (15,489) |
| Economic Development | 38,057 | 0 | (38,057) |
| Total Governmental Activities | <u>\$ 53,546</u> | <u>\$ 0</u> | <u>\$ (53,546)</u> |
| <u>GENERAL REVENUES</u> | | | |
| Property Taxes | | | \$ 77,700 |
| Unrestricted Investment Earnings | | | 8,860 |
| Total General Revenues | | | <u>\$ 86,560</u> |
| Change in Net Assets | | | \$ 33,014 |
| <u>NET ASSETS</u> – Beginning of Year | | | <u>222,138</u> |
| <u>NET ASSETS</u> – End of Year | | | <u>\$ 255,152</u> |

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)

CADILLAC, MICHIGAN

BALANCE SHEET

JUNE 30, 2006

ASSETS

| | |
|-------------------------|-----------------------|
| Cash | |
| Commercial Account | \$ 20,542 |
| Certificates of Deposit | 232,367 |
| Taxes Receivable | <u>2,243</u> |
| TOTAL ASSETS | <u>\$ 255,152</u> |

LIABILITIES AND FUND BALANCE

| | |
|--|-----------------------|
| <u>Liabilities</u> | \$ 0 |
| <u>Fund Balance</u> | |
| Unrestricted | <u>255,152</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 255,152</u> |

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES

| | |
|---------------------------|------------------|
| Taxes | |
| Current Property Tax Levy | \$ 77,700 |
| Interest and Rents | |
| Interest | <u>8,860</u> |
| Total Receipts | <u>\$ 86,560</u> |

EXPENDITURES

| | |
|-----------------------|------------|
| Public Safety | |
| Fire Protection | \$ 15,489 |
| Economic Development | |
| Clerical/Facilitator | 8,400 |
| Planning | 28,461 |
| Professional Services | 825 |
| Other | <u>371</u> |

| | |
|--------------------|------------------|
| Total Expenditures | <u>\$ 53,546</u> |
|--------------------|------------------|

| | |
|---|-----------|
| Excess (Deficiency) of Revenues Over Expenditures | \$ 33,014 |
|---|-----------|

| | |
|------------------------------------|----------------|
| <u>FUND BALANCE</u> - July 1, 2005 | <u>222,138</u> |
|------------------------------------|----------------|

| | |
|-------------------------------------|--------------------------|
| <u>FUND BALANCE</u> - June 30, 2006 | <u><u>\$ 255,152</u></u> |
|-------------------------------------|--------------------------|

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Clam Lake Township Downtown Development Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity

The Clam Lake Downtown Development Authority was established through a Township Ordinance under Act No. 197 of the Public Acts of Michigan of 1975. The Township Board determined that it was necessary and in the best interest of the Township to halt property value deterioration and increase property tax valuation where possible in the DDA District, to eliminate the causes, and to promote economic growth.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Authority. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The Authority's net assets can be reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

The government-wide focus is more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds. The Authority only has a governmental fund called the General Fund.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Authority are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Property taxes and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

The Authority reports the following major governmental fund:

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

General Fund is the primary operating fund of the Authority. It is used to account for all financial resources of the Authority.

D. Assets, Liabilities, and Equity

1. Deposits and Investments

It is the policy of the Clam Lake Township DDA to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the Authority and comply with all state statutes governing the investment of public funds.

The Clam Lake Township DDA's Treasurer is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution. Authorized depositories shall be designated by the Clam Lake Township DDA Board at the Board's organizational meeting after each regular election of officers.

2. Capital Assets and Long-Term Debt

The Authority has no capital assets or long-term debt.

3. Use of Estimates

This presentation of financial statements in conformity with the modified accrual basis of accounting requires the DDA to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and disbursements during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Clam Lake Downtown Development Authority follows these procedures in establishing the budgetary data reflected in the accompanying financial statements:

1. Prior to July 1, the Chairman of the Budget Committee submits to the DDA Board a proposed operating budget for the fiscal year.
2. After review, the Board formally adopts the budget.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

3. The Budget Committee Chairman is charged with general supervision of the budget and monitors the budget.
4. During the year amendments are made to the budget when it is deemed necessary.
5. The budget is adopted on the modified accrual basis of accounting.
6. Budgeted amounts were originally adopted on June 20, 2005, and amended on June 29, 2006.
7. Budget appropriations lapse at the end of the fiscal year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Clam Lake Downtown Development Authority because it is, at present, not considered necessary to assure effective budgetary control or facilitate effective cash planning and control.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments – Credit Risk

The Authority's deposits and investments are all on deposit with banks within the State of Michigan.

Investment rate risk. The Authority will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investments and limiting the average maturity in accordance with the Authority's cash requirements.

Foreign currency risk. The Authority is not authorized to invest in investments, which have this type of risk.

Credit risk. The Authority will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Authority's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Authority will do business in accordance with the Authority's investment policy.

Concentration of credit risk. The Authority will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006, \$1527,527 of the government's bank balance of \$257,527 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered, or securities held by the Authority or the Authority's agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Authority's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Authority's name. At year end, the Authority's investments were uncategorized as to risk.

IV. OTHER INFORMATION

A. Property Taxes

Each year, following the final equalization of property values in the District, the Township Assessor prepares the tax increment assessment roll. The tax increment assessment roll shows the initial assessed value of each parcel of property within the District and the amount by which the current assessed value as finally equalized for all taxable property in the District exceeds the initial assessed value of the property (the "captured assessed value"). Copies of the annual tax increment assessment roll are transmitted by the Assessor to the Township Treasurer, the County Treasurer, the Authority and the Treasurer of each of the taxing jurisdictions within the District, together with a notice that it has been prepared in accordance with this Ordinance and the Plan. The Township Treasurer and the County Treasurer, as ad valorem and specific taxes are collected on the property in the District, pay that proportion of the taxes, except for penalties and collection fees, that the captured assessed value bears to the initial assessed value to the Treasurer of the Authority for deposit in the Fund. The payments are made by the date or dates on which the Township Treasurer and the County Treasurer are required to remit taxes to each of the taxing jurisdictions

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

For the 2005 tax roll, the Authority's property tax revenue was computed as follows:

| | | |
|-------------------------------------|------------------|---------------|
| 2005 Taxable Value of District | \$13,456,465 | |
| Base Year Taxable Value of District | <u>5,387,400</u> | |
| Captured Value | \$ 8,069,065 | |
| Millage Captured | | |
| County Allocated | 6.7988 | |
| Township | <u>2.8304</u> | <u>9.6292</u> |
| 2005 Property Tax Levy | \$ <u>77,700</u> | |

B. Interest Income and Expense

For the year ended June 30, 2006, interest income and interest expense is as follows for the Clam Lake Downtown Development Authority:

| | |
|------------------|----------|
| Interest Income | \$ 8,860 |
| Interest Expense | \$ 0 |

C. Risk Management

The DDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The DDA, through Clam Lake Township, participates in a pool of municipalities within the State of Michigan for self-insuring casualty, crime, general liability, and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required.

The DDA also through Clam Lake Township carries insurance for other risks of loss, including workers' compensation insurance and fidelity bonds.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)

CADILLAC, MICHIGAN

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE |
|--|--------------------|-----------------|------------|------------|
| <u>REVENUES</u> | | | | |
| Taxes | | | | |
| Property Tax Levy | \$ 74,000 | \$ 74,000 | \$ 77,700 | \$ 3,700 |
| Interest and Rents | | | | |
| Interest Earnings | 2,000 | 2,000 | 8,860 | 6,860 |
| Total Revenues | \$ 76,000 | \$ 76,000 | \$ 86,560 | \$ 10,560 |
| <u>EXPENDITURES</u> | | | | |
| Public Safety | | | | |
| Fire Protection | \$ 16,000 | \$ 16,000 | \$ 15,489 | \$ 511 |
| Economic Development | | | | |
| Clerical/Facilitator | 8,400 | 8,400 | 8,400 | 0 |
| Planning | 17,400 | 29,400 | 28,461 | 939 |
| Professional Services | 5,825 | 5,825 | 825 | 5,000 |
| Infrastructure | 12,000 | 12,000 | 0 | 12,000 |
| Other | 2,375 | 2,375 | 371 | 2,004 |
| Contingency | 14,000 | 2,000 | 0 | 2,000 |
| Total Expenditures | \$ 76,000 | \$ 76,000 | \$ 53,546 | \$ 22,454 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ 0 | \$ 0 | \$ 33,014 | \$ 33,014 |
| <u>FUND BALANCE</u> - July 1, 2005 | 221,898 | 221,898 | 222,138 | 195,288 |
| <u>FUND BALANCE</u> - June 30, 2006 | \$ 221,898 | \$ 221,898 | \$ 255,152 | \$ 228,302 |

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

September 26, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Board
Clam Lake Downtown Development Authority
Clam Lake Township
Cadillac, Michigan

As a result of our audit of the basic financial statements of the Clam Lake Downtown Development Authority for the year ended June 30, 2006, we have the following comments:

Reportable Condition in Internal Controls

In planning and performing our audit of the basic financial statements of the Authority for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements.

Certain matters considered to be reportable conditions in internal control were noted. We are issuing a separate letter (letter of reportable conditions) which addresses those items noted.

Investments

The Authority's investing of excess funds is being handled very efficiently. All cash is being maintained in interest bearing accounts.

General Recordkeeping

The accounting records for the year ended June 30, 2006, were found to be in good order and in compliance with the State's uniform accounting system. We commend the Treasurer for a job well done.

We would like to thank the Board for its continued confidence in our firm and to thank the Treasurer for his cooperation.

If you have any questions relative to the above comments and recommendations or other areas or your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

M. WAYNE BEATTIE, C.P.A.
1902 - 1990

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE,
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.

JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER., C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

September 26, 2006

LETTER OF REPORTABLE CONDITIONS

To the Board
Clam Lake Downtown Development Authority
Clam Lake Township
Cadillac, Michigan

In planning and performing our audit of the basic financial statements of the Clam Lake Downtown Development Authority for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements.

1. The relatively small number of people involved in the accounting functions of the Authority make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and all others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.